



## India

**HOLD** (previously REDUCE)

Consensus ratings\*: Buy 26 Hold 11 Sell 5

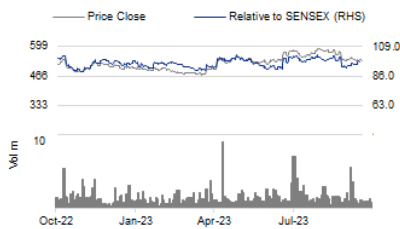
Current price: Rs532  
 Target price: ▲ Rs550  
 Previous target: Rs542  
 Up/downside: 3.4%  
 InCred Research / Consensus: -10.2%

Reuters: MRCO.NS  
 Bloomberg: MRCO IN  
 Market cap: US\$8,270m  
 Rs688,452m  
 Average daily turnover: US\$10.5m  
 Rs871.0m  
 Current shares o/s: 1,291.2m  
 Free float: 40.5%

\*Source: Bloomberg

**Key changes in this note**

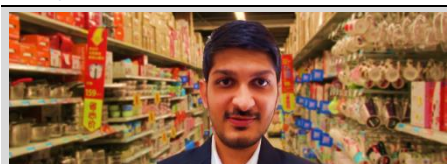
- Upgrade the rating to HOLD (from REDUCE earlier).
- Lower FY25F/26F EPS by 1%/2%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.2)	(5.1)	1.5
Relative (%)	(2.7)	(1.5)	(3.9)

Major shareholders	% held
Promoter	59.5
First State Investments ICVC	5.3
LIC	3.8

**Analyst(s)****Harsh SHAH**

T (91) 22 4161 1568  
 E harsh.shah@incredcapital.com

**Rohan KALLE**

T (91) 22 4161 1561  
 E rohan.kalle@incredcapital.com

**Marico Ltd****Fairly-priced**

- Domestic 2Q volume/value sales remained subdued at 3%/(3%) yoy, impacted by weak consumption and increased aggression from local players.
- There was some recovery in the second half of Sep 2023 while FY24F gross/EBITDA margin guidance stands upgraded by 100/50bp, respectively.
- Marico appears fairly-priced at 46x/42x FY24F/25F P/E, respectively. We upgrade our rating to HOLD with a higher TP of Rs550 (41x Sep 2025F EPS).

**Gradual sales volume recovery likely in 2HFY24F**

Marico's 2QFY24 domestic sales declined by 3% yoy, which its management attributed to lower consumption, aggression by smaller payers in mass categories and a drop in sell-through rate or STR (by three-to-four days) in retail channels. Volume growth stood at 3%. Parachute rigids reported +1%/-1% volume/value growth/decline, respectively, while the Saffola edible oils range declined by c.22% (c.3% volume growth). VAHO posted a 1% yoy value growth. Foods business grew 25%. Rural markets remained muted in Aug-Sep 2023, with a recovery witnessed only in the second half of Sep 2023. Core portfolio is likely to remain muted in the near term. Management highlighted its diversification journey in two avenues - driving up gross margin in the foods business and reducing cash burn in digital channels, with one or two of its digital brands set to achieve breakeven by the end of FY24F.

**International business does well even as Bangladesh business dips**

The international business division or IBD posted a 13% constant currency (CC) growth in 2QFY24. Bangladesh clocked a 2% CC growth while reported growth may have been lower owing to currency depreciation. Vietnam business grew 13% yoy in CC terms, while South Africa and the MENA region grew 23%/34% yoy in CC terms, respectively. Management is confident of driving double-digit CC growth for the IBD in FY24F. Reported sales were affected by currency depreciation in key markets.

**Margin guidance upgrade for FY24F**

Consolidated gross margin/EBITDA margin expanded by 690bp/270bp yoy to 50.5%/20.1%, respectively, in 2QFY24, benefitting from deflationary commodity prices. Prices of copra are expected to remain firm, with an upward bias, led by the upcoming off-season. Management has upgraded its guidance on gross margin to 350-400bp yoy expansion in FY24F. The rising contribution of high-growth portfolio (foods, personal care & D2C) may restrict EBITDA margin expansion, in our view.

**Fairly-priced; upgrade to HOLD with a higher target price of Rs550**

At current levels, Marico seems to be fairly-priced. We upgrade our rating on it to HOLD (REDUCE earlier) with a higher target price of Rs550 (41x Sep 2025F EPS) from Rs542 earlier. Upside risks: Faster recovery in the core portfolio and sustained higher margins. Downside risk: Slower-than-expected sales growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	95,120	97,640	102,127	115,450	126,796
Operating EBITDA (Rsm)	16,810	18,100	21,235	23,196	25,827
Net Profit (Rsm)	11,270	11,580	14,954	16,383	18,247
Core EPS (Rs)	8.7	9.0	11.6	12.7	14.1
Core EPS Growth	(3.0%)	2.8%	29.1%	9.6%	11.4%
FD Core P/E (x)	60.92	59.29	45.91	41.91	37.62
DPS (Rs)	6.0	6.0	6.7	7.1	7.9
Dividend Yield	1.31%	1.33%	1.47%	1.56%	1.73%
EV/EBITDA (x)	40.35	37.54	31.27	28.37	25.20
P/FCFE (x)	70.63	102.01	30.52	49.91	42.59
Net Gearing	(25.9%)	(21.7%)	(54.0%)	(60.0%)	(66.0%)
P/BV (x)	20.70	18.07	16.01	14.15	12.50
ROE	34.4%	32.5%	37.0%	35.8%	35.3%
% Change In Core EPS Estimates			(1.24%)	(1.00%)	(1.98%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Fairly-priced

### Key takeaways from the earnings call

#### Demand:

- Lower consumption, aggression from local players and a drop in STR (by three-to-four days) in the retail channel has contributed to the sluggish growth for the quarter.
- 2QFY24 started off with an encouraging trend in Jul 2023 but there was a noticeable drop in the sentiment in Aug 2023 and Sep 2023, with a visible uptick from the second half of Sep 2023.
- General trade (GT) declined due to lower offtake by the distributors, affecting their RoI and leading to lower credit in retail affecting STR (down by three-to-four days).

#### Diversification journey (two agendas):

- **Drive higher gross margin from the foods segment** – Management restricted the foods segment's growth because it did not have a working model of scaling gross margin. The endeavour is to get this right over the next six months. Management believes the foods business can grow at 30%+ once the challenges are fixed. Management prefers a model of lower growth (25%-30%) with decent profitability instead of the high growth, high cash burn model.
- **Reducing cash burn in digital channels** – Management expects one or two brands to achieve breakeven by FY24F-end and believes the portfolio can witness EBITDA level, like that of the India business, in the next three years.

#### Foods business:

- The oats business grew in double digits. Soya and honey are nearing an annualized run rate (ARR) of Rs1bn. Strengthening the supply chain and optimizing costs should drive growth by 30% in FY25F, in our view.
- **Learnings from Saffola Oats:** 1) No consumer is willing to compromise taste for health, 2) Marico will have to Indianize western concepts in the 'Health' category, and 3) find substitutes for snacking in-between meals. The focus is on replicating the masala oats playbook to soya chunks.

#### Value-added hair oils (VAHO):

- Management is awaiting a pick-up in rural markets in the bottom-of-the pyramid/mass segments.
- Marico's VAHO range is under-indexed in alternate channels (modern trade and e-commerce). The premium hair oil segment (Rs300-350/SKU) is ruled by D2C brands. Marico is not present there.
- Downgrading persists due to significant discounting by some players at the bottom of the pyramid – the local as well as some large players wanting to play in the commoditized category.
- Double-digit growth to be driven by broader participation, premiumization and gaining value market share.

#### Parachute:

- Currently, Parachute is seeing higher offtakes than secondaries as the pricing has been adjusted - positive for volume growth.
- Pricing is right in most stock-keeping units or SKUs. Should gain more market share when copra prices inch up, given their supply chain benefits.

**D2C brands:**

- Beardo has done well and should become profitable soon. The burn rate is much lower than that of the competitors.
- Just Herbs will be the third brand to top the Rs1bn-ARR mark.
- For TruElements, the focus is on bringing the brand into general trade (GT) channels and Indianize some offerings as well as drive up gross margin.

**International business:**

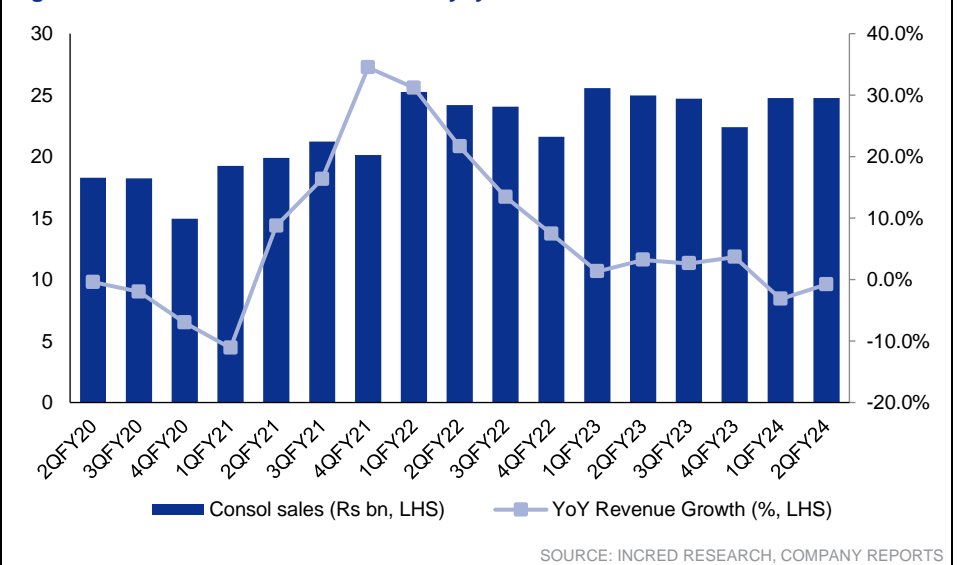
- **Margins:** Vietnam business is doing well in terms of profitability. MENA and South Africa businesses also saw a turnaround. In Bangladesh, due to a larger scale, whenever there is a downturn in the economy, the system spending is reduced to maintain profitability.

**Figure 1: Quarterly results summary - consolidated**

Y/E Mar (Rs.m)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	Gr (%)
<b>Revenue</b>	<b>24,960</b>	<b>24,770</b>	<b>24,760</b>	-0.8	0.0	<b>50,540</b>	<b>49,530</b>	-2.0
<b>Expenditure</b>	<b>20,630</b>	<b>19,030</b>	<b>19,790</b>	-4.1	4.0	<b>40,930</b>	<b>38,820</b>	-5.2
Consumption of raw materials	14,070	12,390	12,260	-12.9	-1.0	28,130	24,650	-12.4
as % of sales	56.4	50.0	49.5			55.7	49.8	
Employee costs	1,660	1,810	1,870	12.7	3.3	3,220	3,680	14.3
as % of sales	6.7	7.3	7.6			6.4	7.4	
Other expenditure	4,900	4,830	5,660	15.5	17.2	9,580	10,490	9.5
as % of sales	19.6	19.5	22.9			19.0	21.2	
<b>EBITDA</b>	<b>4,330</b>	<b>5,740</b>	<b>4,970</b>	<b>14.8</b>	<b>-13.4</b>	<b>9,610</b>	<b>10,710</b>	<b>11.4</b>
Depreciation	370	360	390	5.4	8.3	730	750	2.7
<b>EBIT</b>	<b>3,960</b>	<b>5,380</b>	<b>4,580</b>	<b>15.7</b>	<b>-14.9</b>	<b>8,880</b>	<b>9,960</b>	<b>12.2</b>
Other income	190	320	380	100.0	18.8	360	700	94.4
Interest	150	170	200	33.3	17.6	250	370	48.0
<b>PBT</b>	<b>4,000</b>	<b>5,530</b>	<b>4,760</b>	<b>19.0</b>	<b>-13.9</b>	<b>8,990</b>	<b>10,290</b>	<b>14.5</b>
Total tax	930	1,310	1,160	24.7	-11.5	2,150	2,470	14.9
<b>PAT</b>	<b>3,070</b>	<b>4,220</b>	<b>3,600</b>	<b>17.3</b>	<b>-14.7</b>	<b>6,840</b>	<b>7,820</b>	<b>14.3</b>
(Profit)/loss from JV's/ass./MI	60	90	70	NA	-22.2	120	160	33.3
<b>APAT after MI</b>	<b>3,010</b>	<b>4,130</b>	<b>3,530</b>	<b>17.3</b>	<b>-14.5</b>	<b>6,720</b>	<b>7,660</b>	<b>14.0</b>
Extraordinary items	0	140	0	NA	NA	0	140	NA
<b>Reported PAT</b>	<b>3,010</b>	<b>4,270</b>	<b>3,530</b>	<b>17.3</b>	<b>-17.3</b>	<b>6,720</b>	<b>7,800</b>	<b>16.1</b>
<b>EPS</b>	<b>2.3</b>	<b>3.2</b>	<b>2.7</b>	<b>17.3</b>	<b>-14.5</b>	<b>5.2</b>	<b>5.9</b>	<b>14.0</b>
<b>Margins (%)</b>	<b>2QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>1HFY23</b>	<b>1HFY24 (bp)</b>	
Gross margin	43.6	50.0	50.5	690	50	44.3	50.2	590
EBIDTA	17.3	23.2	20.1	270	-310	19.0	21.6	260
EBIT	15.9	21.7	18.5	260	-320	17.6	20.1	250
EBT	16.0	22.3	19.2	320	-310	17.8	20.8	300
PAT	12.3	17.0	14.5	220	-250	13.5	15.8	230
Effective tax rate	23.3	23.7	24.4	110	70	23.9	24.0	10

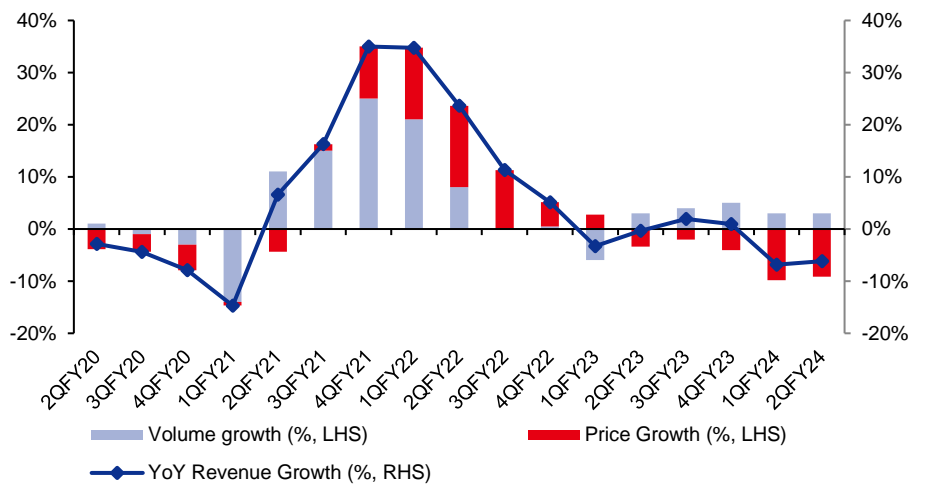
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Consolidated sales decline 1% yoy in 2QFY24**



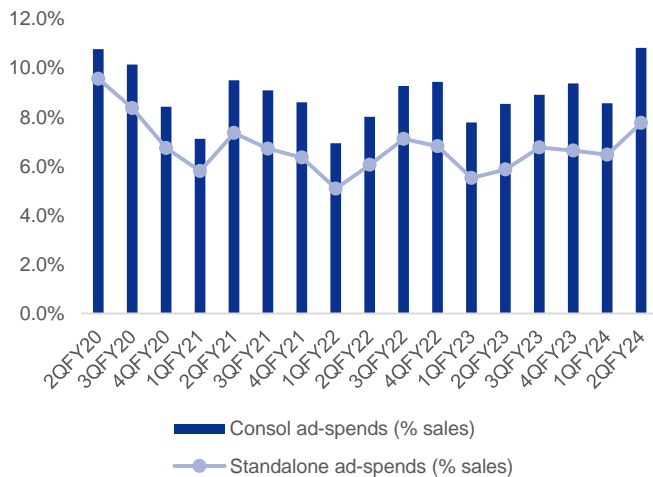
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Volume growth stood at 3% yoy in 2QFY24



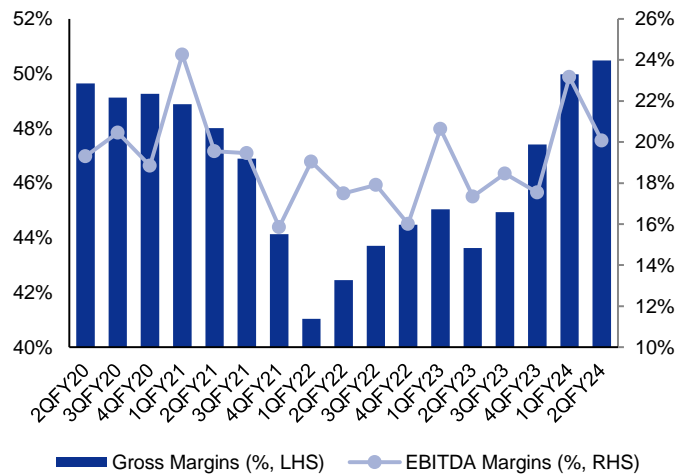
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consolidated/standalone advertising expenses stood at 10.8%/7.8%, respectively, of sales in 2QFY24



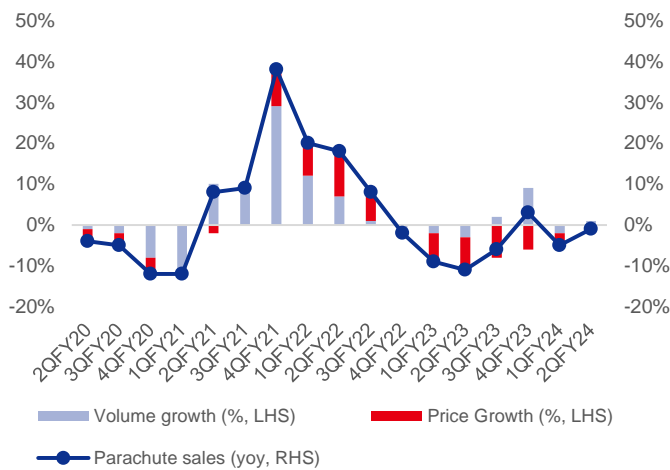
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Consolidated gross margin expanded by 690bp yoy to 50.5% in 2QFY24



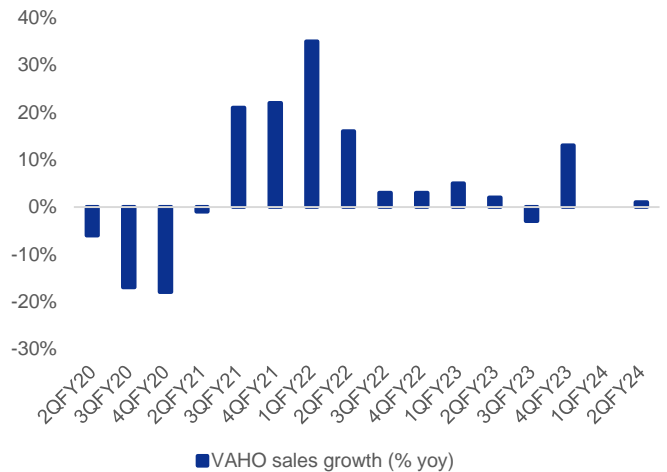
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Parachute grew 1% in volume terms in 2QFY24



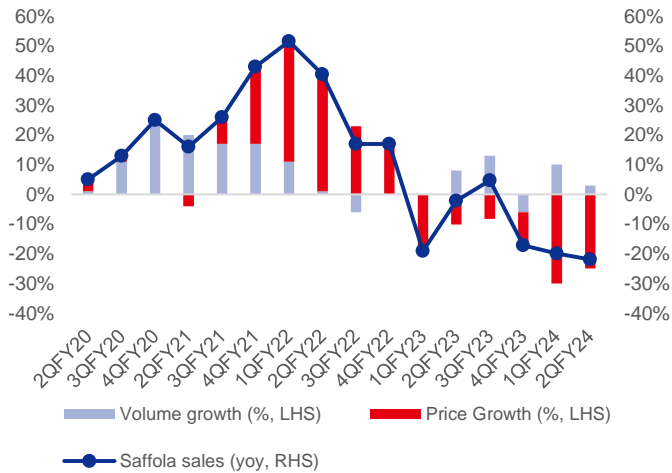
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Food segment's sales grew 25% yoy in 2QFY24



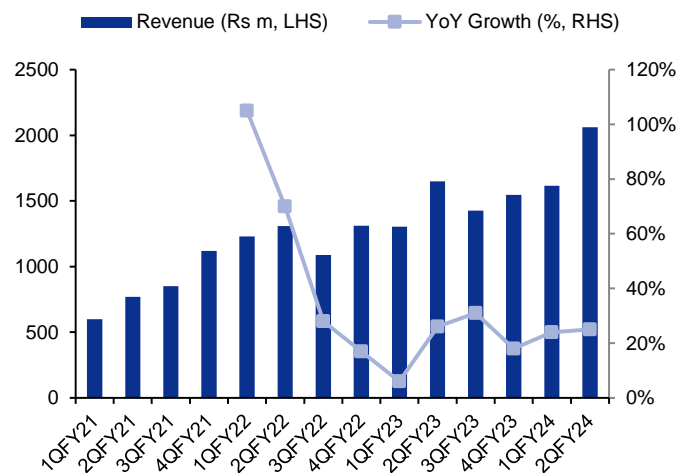
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Saffola edible oils declined 22% yoy in 2QFY24



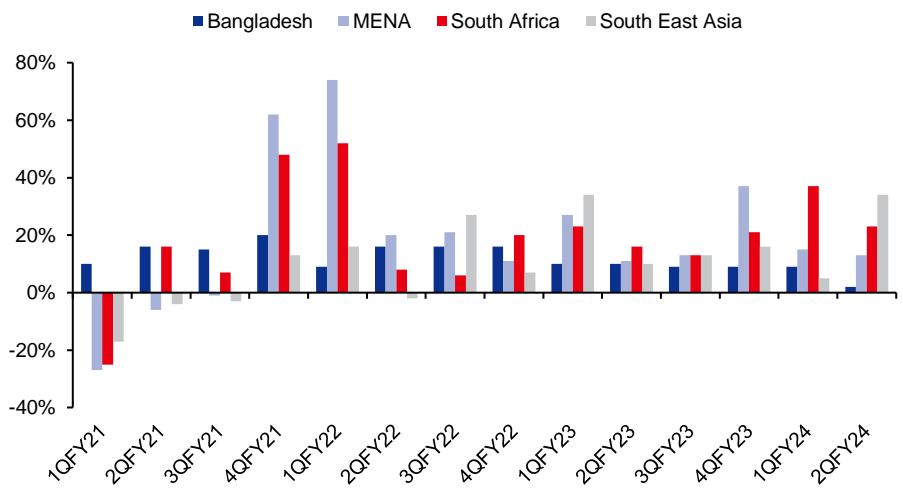
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Food segment's revenue grew 25% yoy in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

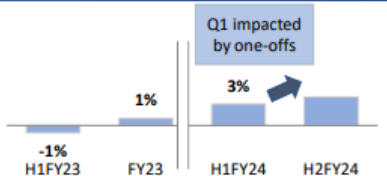
Figure 10: International business grew 13% yoy in constant currency terms in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

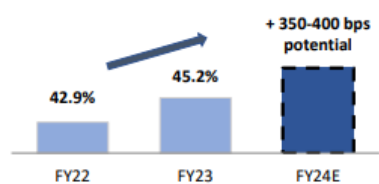
Figure 11: Expectations for FY24F

India Vol. Growth – gradual uptick expected



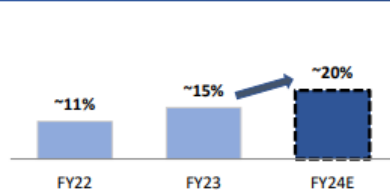
Consolidated revenue growth to move into positive territory in H2FY24 as pricing deflation tapers off

Gross Margin Trending Up



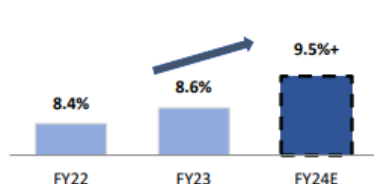
GM uptrend to continue with RM moderating and improving portfolio mix

India – Diversification Journey



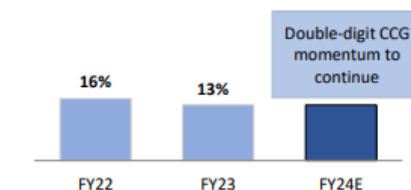
Revenue share of Foods & Premium Personal Care was at ~20% of domestic business in Q2FY24

A&P as a % of sales – Key Thrust for Growth



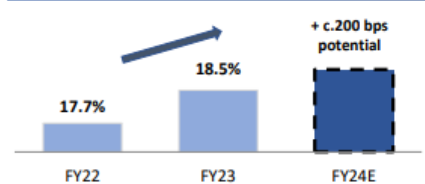
A&P spends to continue to be a long-term growth driver

International Business (CCG) - Going Strong



Constant currency growth stood at 11% in H1FY24

Operating Margin Expansion Likely



EBITDA margin expected to expand by ~200 bps

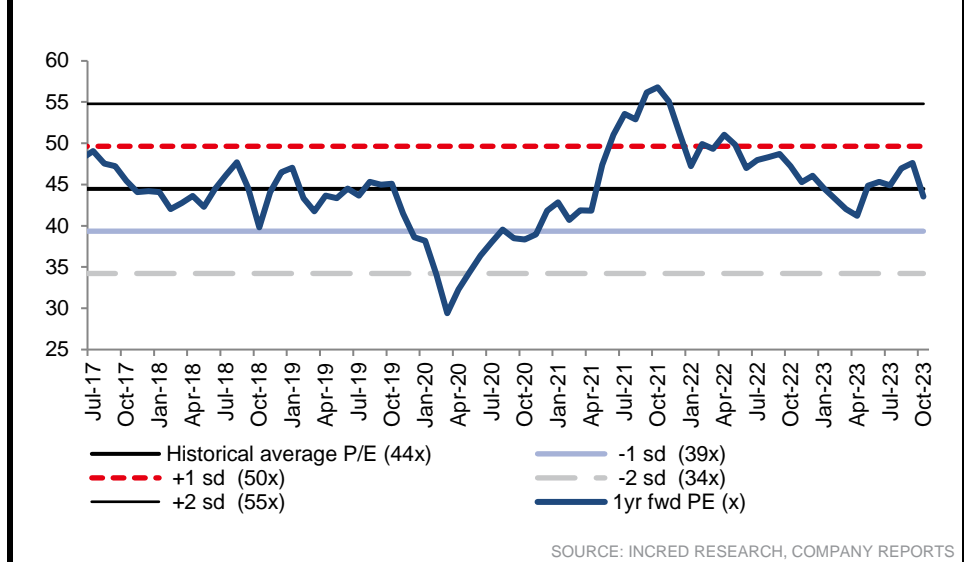
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

Y/E Mar (Rs. m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net sales	104,198	102,127	-2.0	118,331	115,450	-2.4	130,941	126,796	-3.2
EBITDA	21,570	21,235	-1.6	23,496	23,196	-1.3	26,393	25,827	-2.1
EBITDA margin (%)	20.7	20.8	10 bp	19.9	20.1	20 bp	20.2	20.4	20 bps
Net Income (before except. items)	15,141	14,954	-1.2	16,549	16,383	-1.0	18,616	18,247	-2.0
EPS	11.7	11.6	-1.2	12.8	12.7	-1.0	14.4	14.1	-2.0

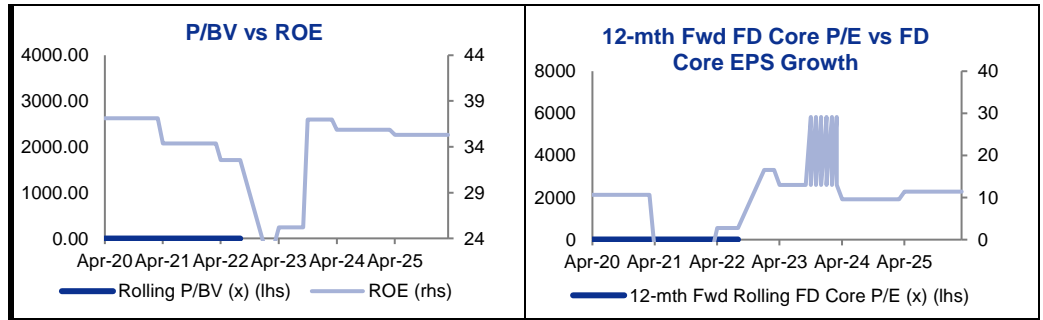
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Marico's one-year forward P/E trades at its five-year average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>95,120</b>	<b>97,640</b>	<b>102,127</b>	<b>115,450</b>	<b>126,796</b>
<b>Gross Profit</b>	<b>40,760</b>	<b>44,130</b>	<b>50,358</b>	<b>56,645</b>	<b>63,031</b>
<b>Operating EBITDA</b>	<b>16,810</b>	<b>18,100</b>	<b>21,235</b>	<b>23,196</b>	<b>25,827</b>
Depreciation And Amortisation	(1,390)	(1,550)	(1,753)	(1,957)	(2,160)
<b>Operating EBIT</b>	<b>15,420</b>	<b>16,550</b>	<b>19,482</b>	<b>21,240</b>	<b>23,667</b>
Financial Income/(Expense)	(390)	(560)	593	673	773
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>15,030</b>	<b>15,990</b>	<b>20,074</b>	<b>21,913</b>	<b>24,440</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>15,030</b>	<b>15,990</b>	<b>20,074</b>	<b>21,913</b>	<b>24,440</b>
Taxation	(3,460)	(4,210)	(4,821)	(5,230)	(5,893)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11,570</b>	<b>11,780</b>	<b>15,254</b>	<b>16,683</b>	<b>18,547</b>
Minority Interests	(300)	(200)	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11,270</b>	<b>11,580</b>	<b>14,954</b>	<b>16,383</b>	<b>18,247</b>
Recurring Net Profit	11,270	11,580	14,954	16,383	18,247
<b>Fully Diluted Recurring Net Profit</b>	<b>11,270</b>	<b>11,580</b>	<b>14,954</b>	<b>16,383</b>	<b>18,247</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>16,810</b>	<b>18,100</b>	<b>21,235</b>	<b>23,196</b>	<b>25,827</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,460)	1,420	10,359	67	362
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	980	1,440	1,253	1,333	1,433
Net Interest (Paid)/Received	(390)	(560)	(660)	(660)	(660)
Tax Paid	(3,460)	(4,210)	(4,821)	(5,230)	(5,893)
<b>Cashflow From Operations</b>	<b>10,480</b>	<b>16,190</b>	<b>27,366</b>	<b>18,707</b>	<b>21,069</b>
Capex	(1,020)	(6,780)	(1,868)	(1,950)	(1,950)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	260	(2,680)	(3,000)	(3,000)	(3,000)
<b>Cash Flow From Investing</b>	<b>(760)</b>	<b>(9,460)</b>	<b>(4,868)</b>	<b>(4,950)</b>	<b>(4,950)</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(12,170)	(5,820)	(10,065)	(10,742)	(11,859)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(12,170)</b>	<b>(5,820)</b>	<b>(10,065)</b>	<b>(10,742)</b>	<b>(11,859)</b>
Total Cash Generated	(2,450)	910	12,432	3,014	4,259
<b>Free Cashflow To Equity</b>	<b>9,720</b>	<b>6,730</b>	<b>22,498</b>	<b>13,757</b>	<b>16,119</b>
<b>Free Cashflow To Firm</b>	<b>10,110</b>	<b>7,290</b>	<b>23,158</b>	<b>14,417</b>	<b>16,779</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS



**BY THE NUMBERS...cont'd**

**Balance Sheet**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	12,200	13,340	28,772	34,787	42,046
Total Debtors	6,520	10,150	4,615	5,216	5,726
Inventories	14,120	12,250	15,370	16,191	16,486
Total Other Current Assets	3,290	3,950	3,756	4,244	4,656
<b>Total Current Assets</b>	<b>36,130</b>	<b>39,690</b>	<b>52,513</b>	<b>60,438</b>	<b>68,913</b>
Fixed Assets	12,930	15,620	15,747	15,740	15,530
Total Investments	1,870	5,180	5,180	5,180	5,180
Intangible Assets	3,060	5,600	5,588	5,588	5,588
Total Other Non-Current Assets	730	(320)	(320)	(320)	(320)
<b>Total Non-current Assets</b>	<b>18,590</b>	<b>26,080</b>	<b>26,195</b>	<b>26,188</b>	<b>25,978</b>
Short-term Debt	3,450	4,730	4,730	4,730	4,730
Current Portion of Long-Term Debt					
Total Creditors	13,440	14,520	22,620	24,579	26,143
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>16,890</b>	<b>19,250</b>	<b>27,350</b>	<b>29,309</b>	<b>30,873</b>
Total Long-term Debt		20	20	20	20
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>		<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
Total Provisions	220	480	130	148	162
<b>Total Liabilities</b>	<b>17,110</b>	<b>19,750</b>	<b>27,499</b>	<b>29,477</b>	<b>31,055</b>
Shareholders Equity	33,170	37,990	42,878	48,519	54,907
Minority Interests	570	1,570	1,570	1,570	1,570
<b>Total Equity</b>	<b>33,740</b>	<b>39,560</b>	<b>44,448</b>	<b>50,089</b>	<b>56,477</b>

**Key Ratios**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	18.2%	2.6%	4.6%	13.0%	9.8%
Operating EBITDA Growth	5.6%	7.7%	17.3%	9.2%	11.3%
Operating EBITDA Margin	17.7%	18.5%	20.8%	20.1%	20.4%
Net Cash Per Share (Rs)	6.78	6.66	18.62	23.28	28.91
BVPS (Rs)	25.71	29.45	33.24	37.61	42.56
Gross Interest Cover	39.54	29.55	29.52	32.18	35.86
Effective Tax Rate	23.0%	26.3%	24.0%	23.9%	24.1%
Net Dividend Payout Ratio	79.7%	78.6%	67.3%	65.6%	65.0%
Accounts Receivables Days	19.95	31.16	26.38	15.54	15.75
Inventory Days	85.21	89.94	97.37	97.95	93.52
Accounts Payables Days	83.19	95.36	130.93	146.48	145.17
ROIC (%)	56.7%	50.6%	88.0%	96.2%	110.0%
ROCE (%)	42.1%	40.6%	41.7%	40.8%	40.8%
Return On Average Assets	22.0%	20.5%	20.3%	19.4%	19.6%

**Key Drivers**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic revenue growth	18.4%	(0.3%)	2.3%	13.0%	9.6%
EBIDTA margin	17.7%	18.5%	20.8%	20.1%	20.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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